

**OKANOGAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 3**  
**DBA MID-VALLEY HOSPITAL**  
**Okanogan County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Schedule Of Findings**

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1. The District Should Implement Internal Controls Over Accounts Receivable

During our audit, we noted the following weaknesses in the district's accounts receivable internal control system:

- a. Postings from the patient accounting system to the general ledger were incomplete and inappropriate. Clinic charges, receipts, and adjustments weren't tracked. The accounts receivable control accounts for the hospital and clinic subsidiary ledgers didn't reconcile. The cash control accounts had not been reconciled all year. At the auditor's request, the district spent six months reconciling accounts and making adjustments. Net income was ultimately reduced by \$500,000.
- b. Miscellaneous accounts in the amount of \$36,000 were not billed to the owing parties.
- c. Continuous and timely attempts were not made to collect outstanding hospital accounts receivable. As of December 31, 1995, the net days outstanding for hospital accounts receivable, calculated on an annual basis, was 102 days. The industry average is 57 days.
- d. Procedures were not established for proper approval and write-off of clinic accounts which were deemed uncollectible. Approximately \$20,000 worth of accounts receivable were written off without prior board approval.

These weaknesses increase the risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

Due to the turnover in the chief financial officer position and the district's conversion to a new computer accounting system, intended internal controls were not accomplished.

We recommend the district implement the following internal controls over their accounts receivable system:

- a. Design procedures to ensure that postings from the patient accounting system to the general ledger are proper.
- b. Establish and periodically reconcile control accounts.

- c. Implement policies and procedures to ensure that amounts owing are billed and collected.
- d. Obtain and document board approval prior to writing off accounts.

Auditee's Response

*Daily postings from the patient accounting system are reviewed by patient accounting management and identified errors are corrected daily. Postings from the patient accounting system to the general ledger are reviewed and reconciled on a monthly basis.*

*General ledger control accounts are reconciled on a monthly basis.*

*The miscellaneous billing process has been computerized. Charges are entered throughout the month and billings are generated monthly.*

*All non-contractual adjustments are approved by the Chief Financial Officer. All bad debt accounts are approved for write-off by the board prior to disposition.*

Auditor's Concluding Remarks

It appears that the hospital has implemented the necessary internal controls. We appreciate the hospital's timely and thorough response to our recommendations. We will review the improvements made to the accounts receivable system during our next audit.

2. The District Should Improve Internal Controls Over Fixed Assets

During our review of the district's fixed assets system, we noted that many fixed assets which were declared surplus and then sold or disposed of were not removed from the property records. In addition, a physical comparison of assets to those listed in the property records was not performed.

These internal control weaknesses increase the risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend the district implement procedures to remove surplused items from the property records as they are sold or disposed of. We further recommend the district reconcile property records to physical counts and investigate any losses.

Auditee's Response

*A physical inventory of assets is planned for the summer of 1997. The physical inventory of assets will be reconciled to the general ledger. All assets identified as sold or disposed of will be removed from the asset records. All missing equipment will be investigated.*

Auditor's Concluding Remarks

We appreciate the hospital's commitment to resolve the issues noted in the finding. We will review the hospital's progress in this area during our next audit.

We also wish to thank hospital officials and personnel for their assistance and cooperation throughout the audit.